

MEDIUM TERM REVENUE STRATEGY 2023-2027

Presented by
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Minister for Treasury

FOREWORD

On behalf of the Marape-Rosso Government, I am honoured to present the Medium-Term Revenue Strategy (2023-2027).

The Medium-Term Revenue Strategy (2023-2027) is a significant milestone achievement for the Pangu Party and its coalition members. This Strategic Plan provides a comprehensive approach for undertaking effective tax systems' reform for boosting tax revenues and improving the tax system over the medium term through a country-led and whole-of-government approach.

There are several inter-related elements essential for providing better opportunities and government services to our people. First, we need to lift our economic growth rates to at least 5 percent per annum. The focus of this growth is on the non-resource economy, for this is where the vast majority of our peoples earn their livelihoods. Strong growth in the resource sector, based on a fair rate of return, then adds icing onto the cake. Second, we need a well-crafted approach to raising government revenues. We know that tax policy is always a balance between equity, efficiency and simplicity. In its immediate effects, taxation by definition reduces the returns to entrepreneurs and lowers growth. However, this taxation can then fund the training essential for skilled labour, the infrastructure essential for businesses, the law and order and systems for enforcements of contracts. These indirect impacts of taxation are also essential for businesses and add to growth. Third, we need effective expenditure policies to translate revenues into the most productive and targeted government expenditure possible.

~~Strong growth leads to strong revenues leads to strong expenditures. This is the essential trilogy. The MTRS is an essential link for how we can translate strong growth rates into more and better government services.~~

The Medium-Term Revenue Strategy (2023-2027) is formulated at a time when revenue as a share of GDP has generally declined as a share of our economy. As a responsible Government, the Marape-Rosso Government is doing its part by halting the decline in the tax to GDP ratio, and reversing it through the Medium-Term Revenue Strategy (2023-2027).

The Medium-Term Revenue Strategy (2023-2027) is historic for several other reasons. It is guided by the ambitious 13-Year Budget Repair Plan which will help Papua New Guinea collect the most anticipated revenue in the country's history by 2027.

This Medium-Term Revenue Strategy (2023-2027) sets a revenue target of 17.9 percent of tax to GDP ratio to be achieved by 2027 through improved compliance and enforcement. The strategy is underpinned by broader economic reforms aiming to lift the growth rate of the non-resource economy to significantly above the population growth rate, thereby starting to lift standards of living. The MTRS includes proposed administrative reforms to be undertaken mainly by the Internal Revenue Commission (IRC) and the Papua New Guinea Customs Service (PNGCS). The administrative reforms are comprehensive with the aim of strengthening institutions that are aligned with best practices and principles of effective tax administration. I, as the Treasurer, have made this very clear to the IRC and PNGCS that they will need to ensure government policies are adhered to and being effectively implemented. Recent progress is a very positive sign for the path ahead.

In implementing the Medium-Term Revenue Strategy (2023-2027), careful examination of the laws governing the tax and non-tax revenue will be required, including both the substantive laws setting the taxes and non-taxes and the procedural ones establishing the revenue agencies' powers and taxpayers' rights, as well as options to improve governance arrangements. Attention also needs to be paid to meeting international treaties and other obligations. Improving and altering of the legal framework will also have to include subsequent changes to policies and administrative matters and procedures.

The Medium-Term Revenue Strategy (2023-2027) will achieve the following:

- Halting the declining revenue to GDP trend and increase revenues (excluding donor grants) as a share of GDP to reach 17.9 per cent or above by 2027;
- Aggressively improving compliance and enforcement to increase revenue collections;
- Broad-based revenues (tax and non-tax) that ensure everyone makes a fair contribution to nation-building while examining a shift of income taxes to consumption taxes;
- Clear policies that support national development goals and encourage investment without eroding the tax base through tax exemptions;
- Lifting non-tax revenue collections substantially through the implementation of the *Non-Tax Revenue Administration (NTRA) Act 2022* and increasing dividend and outstanding land rental collections;
- Continuing to strengthen revenue policy, the legislative framework, and administrative components of the revenue system for a more effective, simpler, and efficient tax system; and
- Implementing fair and efficient revenue administration that provides high quality services to all taxpayers.

Overall, the tax system is a critical enabler for Papua New Guinea (PNG) to achieve its long-term development aspirations that are embedded in the PNG Development Strategic Plan (DSP) (2010-2030) and the Vision 2050 which bring about economic growth and social development that will improve livelihoods for its citizens.

Finally, I take this time to acknowledge and appreciate all those who have worked so tirelessly to formulate the Medium-Term Revenue Strategy (2023-2027), especially Secretary for Treasury, Mr. Andrew Oaeko and his hardworking officers in the Department.



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1 BACKGROUND

Papua New Guinea (PNG) has three levels of government which are the national, provincial, and local levels. The National Government of Papua New Guinea has jurisdiction over taxes applied to PNG residents on income from worldwide sources and non-residents on income sourced from PNG. The PNG tax system comprises of both direct and indirect taxes.

The tax system is a critical enabler for PNG to achieve its long-term development goals that are embedded in the Medium-Term Development Plan IV (2023 -2027), PNG Development Strategic Plan (DSP) (2010-2030) and the Vision 2050. PNG's long-term vision is to bring about economic growth and social development that will improve livelihoods for its citizens.

The realisation of the long-term development aspirations needs stable and sustainable sources of funding for social and public investments. Programs in the health, education, law and order, infrastructure and other sectors and basic services require reliable sources of revenue to support programs and services that require more than one year to achieve measurable results or outcomes for a prosperous and orderly society.

Taxation is also a key component for establishing the social contract between the Government and its citizens. Holding governments accountable enables and encourages effective management of tax revenues that translate to provision of better public goods and services. It also ensures the success of development plans and strategies and plays a key role in making growth sustainable and equitable.

Many developing countries are struggling to collect sufficient revenues to finance their own development. According to World Bank, countries collecting less than 15.0 per cent of GDP in taxes must increase their revenue collection to meet basic needs of citizens and the private sector. This level of taxation is an important tipping point to make a country viable and putting it on a path to sustainable growth.

This Medium-Term Revenue Strategy (2023-2027) will build on from the original MTRS by continuing the momentum of developing a strong revenue base. A stable and sustainable revenue stream is viewed as vital to achieving fiscal consolidation and delivery of public services.

The Department of Treasury is coordinating and working with other key revenue raising state agencies like Internal Revenue Commission, PNG Customs Service, and the Department of Finance to formulate and implement the Medium-Term Revenue Strategy (2023-2027).

1.1 Government Revenue Performance and Outlook

The total revenue (tax and other revenues excluding grants) trend as a share of GDP has generally declined over the 6 years (2012-2017) period prior to the implementation of the first MTRS 2018-2022. The decline over this period was due to several reasons including the fall in commodity prices, the adverse impact of drought, the foreign exchange imbalances and weaker collections from extractives. Part of the decline in revenue was also caused by lower levels of compliance.

The contribution of the resource sector to overall tax collections is highly variable. The green line showing resource tax revenues as a share of resource GDP (a key tax performance

measure) is highly variable. Also, it fell to extremely low levels by 2017, from over 15.0 per cent in 2012 to under 2.0 per cent.

The second key component of PNG's tax system is the non-resource tax revenues, especially the three key tax areas of Personal Income Tax, the Goods and Services Tax, and Company taxes. Together, these have averaged 70.0 per cent of all tax collections. Non-resource taxes have steadily declined since 2014. Overall, the decline in revenue posed a significant challenge for the Government to achieve its desired policy outcomes. On a no-policy-change basis, revenue trends continue to decline, and the first MTRS (2018-2022) has attempted to halt the declining trends.

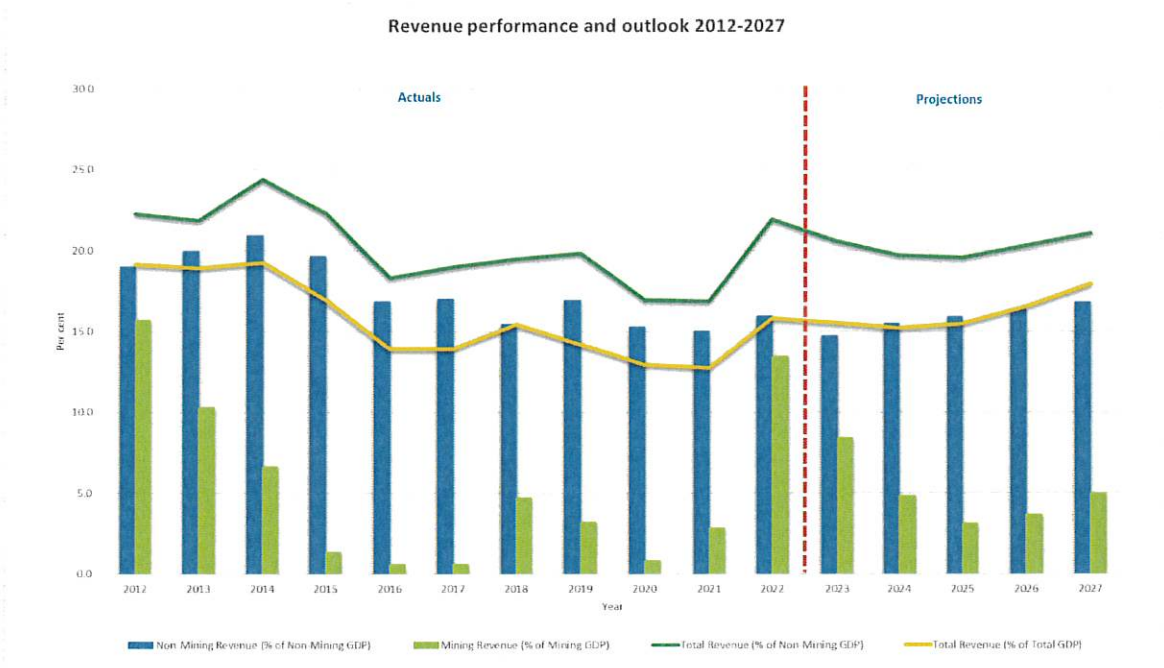
During the implementation of the first MTRS (2018-2022), revenue trends as a share of GDP increased from 13.9 per cent in 2017 to 15.4 per cent in 2018 with all the increase occurring in resource taxation. The steepest fall was between the end of the construction phase of PNG LNG in 2014 and 2017. However, there has been a trend fall in the performance of non-resource taxes since then, and this fall was not reversed during MTRS (2018 - 2022). In 2020, the COVID-19 pandemic reduced overall revenues by K2.5 billion, and it was recognised that it would take several years to recover tax performance.

As we commence this new MTRS, with 2023 non-resource revenues performance relative to the economy at the lowest levels since 2012, the plan is to reverse this downward trend and return non-resource tax collections relative to the non-resource economy back to at least 2017 levels. Combined with the expected growth in revenues as the PNG LNG project stops repaying loans and having tax depreciation write-offs, the overall level of revenues is expected to slowly increase as a share of GDP.

In nominal terms (so not allowing for the impacts just driven by higher prices and a growing economy), Government revenue increased from K10,085.2 million in 2017 to K12,249.5 million in 2018, but it declined to 14.2 per cent (K11,904 million) in 2019, 12.9 per cent in 2020 (K10,668.3 million), and 12.8 per cent in 2021 (K11,772.4 million) owing to the negative impact of COVID-19 and the war in Ukraine. Despite the multiple economic shocks, the total revenue as a share of GDP picked up in 2022 to 15.8 per cent (K17,066.1 million) supported by high commodity prices and the removal of COVID-19 restrictions.

Figure 1 shows the actual revenue collection and projections under the 13-year Budget Repair Plan.

Figure 1: Revenue Performance and Outlook 2012-2027.



Source: Department of Treasury.

Revenue mobilisation has been fluctuating over the years due to commodity price fluctuations, foreign exchange issues, economic shocks, and the impact of fiscal and financing constraints on Government domestic expenditure. Given the development needs and financing constraints, the need for enhancing revenue performance through policy, administrative, and legislative reforms over the medium term that are guided by the MTRS (2023-2027) is critical.

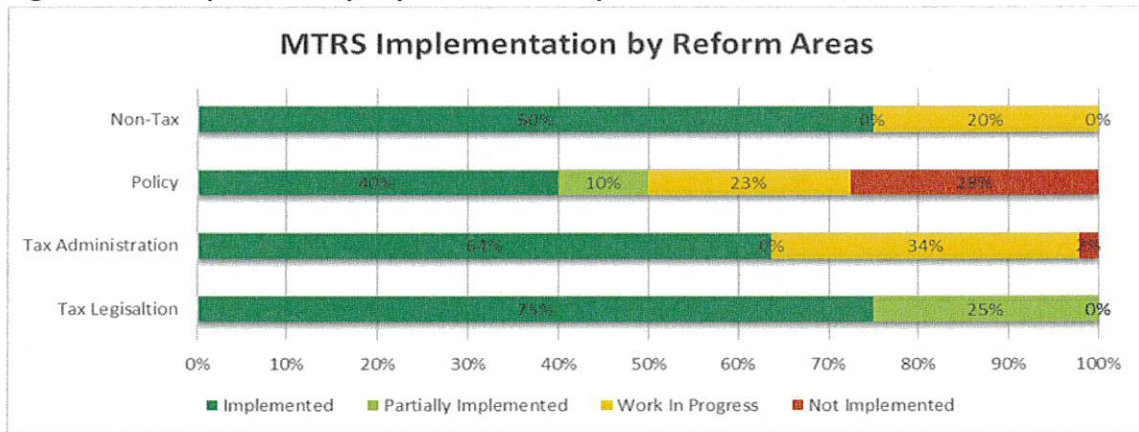
1.2 Report on the Medium Term Revenue Strategy (2018-2022)

The Government, with technical assistance from the International Monetary Fund (IMF), developed Papua New Guinea’s Medium-Term Revenue Strategy (2018-2022). The Strategy incorporated recommendations from both the 2015 PNG Taxation Review and the IMF’s report on PNG’s tax administration, policy, and legislation. These combined revenue recommendations provided a high-level roadmap for a robust medium-term revenue strategy for PNG.

The aim of the MTRS (2018-2022) was to generate sustainable and stable revenue through an effective, efficient and equitable tax system for essential public services, fund higher levels of public investments, and achieve higher economic growth rates over time.

With the guidance of MTRS, the Government was able to implement most of the important policy, administration, and legislative reforms to the tax system (see Figure 2). There was a total of 195 reforms (Policy - 40; Administration -146; Non-Taxation -5; and Legislation - 4) captured under the MTRS (2018-2022). Over the medium term, the Government implemented twenty-three (23) policy reforms, seventy-six (76) administrative reforms and two major legislative reforms.

Figure 2: MTRS (2018-2022) Implementation Update.



Source: Department of Treasury

Despite external and domestic challenges, the implementation of the reforms assisted in reforming the tax system and helped strengthen domestic resource mobilization.

1.3 The need for MTRS

The Government's overall aim is to reach a surplus budget by 2027, and then to have the option to settle all its debt by 2034 as per the 13-Year Budget Repair Strategy. To achieve this, the Government needs to generate sufficient revenue through its domestic resource mobilization effort to adequately fund its expenditure needs while at the same time reducing its dependency on domestic and external borrowing. The implementation of MTRS (2023- 2027) will enable the Government to achieve the 13-Year Budget Repair Plan and support funding for its development goals. It provides the reform roadmap to mobilise the needed revenue sustainably to fund its increasing expenditure.

2 VISION, GOALS AND OBJECTIVES

2.1 Vision

The domestic resource mobilization efforts of the Medium-Term Revenue Strategy (2023 - 2027) supports PNG's Vision 2050 aspiration to be a Smart, Wise, Fair, Healthy and Happy Society by 2050 and be ranked in the top 50 countries in the Human Development Index.

In support of PNG's Vision 2050, the MTRS (2023-2027) aims to develop an ambitious revenue mobilization strategy that improves revenue generation through an effective, efficient and equitable tax system as well as using refined strategies to improve performance of non-tax revenues that will help fund higher public investment levels, improved services, and higher economic growth rates.

2.2 Goals and Objectives

To achieve the stated vision, this MTRS (2023-2027) sets the following goals and objectives:

- Halting the declining revenue to GDP trend and increase revenues (excluding donor grants) as a share of GDP to reach 17.9 per cent or above by 2027;
- Aggressively improving compliance and enforcement to increase revenue collection by five percent annually over and above the current revenue projections, which could raise collection to around 21.6 per cent of GDP;
- Broad-based revenues (tax and non-tax) that ensure everyone makes a fair contribution to nation-building while lessening the burden of incomes tax by shifting to consumption taxes;
- Clear policies that support national development goals and encourage investment without eroding the tax base through tax exemptions;
- Lifting non-tax revenue collections substantially through the implementation of the *Non-Tax Revenue Administration (NTRA) Act 2022* and increasing dividend and outstanding land rental collection;
- Continuing to strengthen revenue policy, the legislative framework, and administrative components of the revenue system for a more effective, simpler, and efficient tax system; and
- Implementing fair and efficient revenue administration that provides high quality services to all taxpayers.

Overall, the vision will be implemented through a comprehensive tax system reform plan that is sequenced to overhaul the tax system. It will be achieved by redesigning tax policy, setting reform agendas for enhancing the revenue collecting capacities of agencies, and strengthening the legal framework.

The reforms are based on the fundamental tax principles presented in Box 1.

Box 1. Tax Policy Reform Principles

Efficiency/Neutrality. Taxes should be raised, as much as possible, in a non-distorting fashion, leaving economic choices the same as they would have been without taxes. This involves, for example, minimising tax exemptions and special regimes whereby governments try to favor specific economic sectors or economic activities.

Simplicity and Transparency. Simple taxes are good taxes, for all can understand them and few can evade them. In this respect, a tax with simple rules, few and low rates, minimal exemptions, as well as a clear, wide, and measurable base provides more revenue and less opportunity for evasion. Furthermore, the tax system should be based on few such taxes to avoid the proliferation of small inefficient taxes that represent heavy administrative costs and provide opportunities for corruption.

Equity/Fairness. Although countries may hold widely different views on equity, it is generally suggested that individuals with similar incomes should pay similar taxes (horizontal equity) and that individuals with higher income should pay more taxes (vertical equity).

High revenue generating capacity. The tax system should be able to supply the government with the resources it needs to meet its spending obligations on a sustainable basis. Furthermore, as tax revenues from different taxes might fluctuate, the tax system should rely on a mix of a few taxes to lower the risk of wide annual fluctuations in overall tax revenue.

Harmonisation/Coordination with other systems. Tax harmonization and coordination with economic partners or geographical neighbors will help prevent opportunities for various forms of tax avoidance and/or evasion and avoid incentives for tax competition that could lead to revenue loss.

Greater reliance on domestic taxes. Less reliance on distortionary trade taxes and greater reliance on domestic taxes such as VAT and excises which tax all goods and services irrespective of their origins, helps countries to obtain the benefits of free and open trade, as well as to comply with WTO obligations.

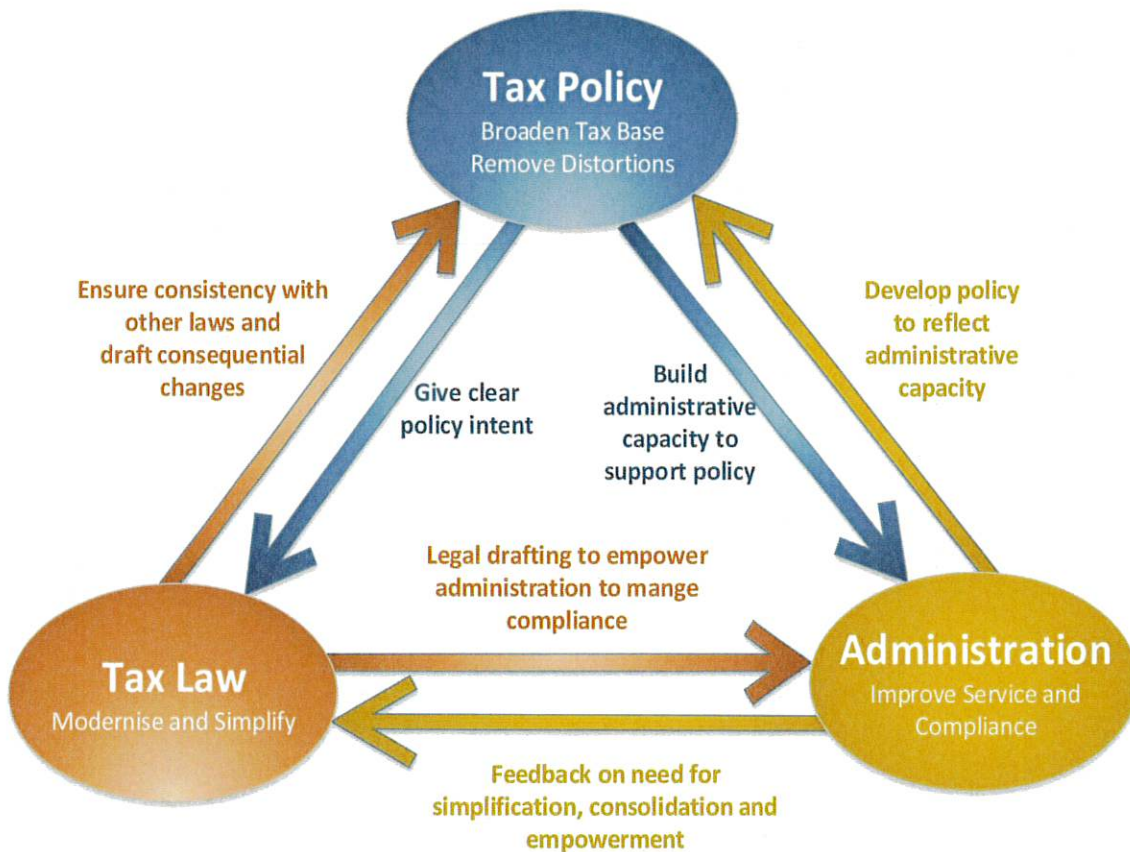
Feasibility. The design of taxes should be aligned with the capacity of the tax administration to implement and collect tax revenue.

Integration. All main taxes should be consistent, in terms of thresholds, rates and registration to ensure the fair treatment of all taxpayers and minimize administrative costs.

2.3 Approach of MTRS

The approach used in the MTRS (2018-2022) will be maintained. That is to treat the policy, administrative and legal components of the tax system in a holistic and interactive way. It provides for essential coordination between the policy, administrative and legal elements of the system as outlined in Figure 3.

Figure 3: Linking Taxation Policy, Administration and Legislative Framework.



This approach is essential in managing the revenue mobilization challenges by building a tax system that is compatible with the changing economic environment, evolving business practices, and is resistant to avoidance. These interdependencies and linkages between the different elements of the tax system aim to create a business, investment and tax environment that has clear policies that support national development, social objectives and encourage investment.

The approach to improving non-tax revenue performance will be through the implementation of the *Non-Tax Revenue Administration Act 2022*, justified increases to fees and charges collections over time, and the revised dividend policy and accounting for the dividends paid by the State-Owned Enterprises.

2.4 Medium Term Projections

The medium-term projections for the MTRS (2023-2027) revenue targets are shown below.

Table 1: Medium Term Revenue Projections 2023-2027 (Kina Millions).

	2022 FBO	2023	2024	2025	2026	2027
13 Year Fiscal Plan Revenue and Grants	18,538.2	19,582.0	20,498.9	22,226.8	25,123.7	28,368.7
% of GDP	17.2%	17.3%	16.9%	17.1%	18.1%	19.5%
of which Revenue (ex. grants) % GDP	15.8%	15.5%	15.2%	15.5%	16.5%	17.9%
Taxes	16,453.6	14,899.6	15,813.6	17,196.7	19,414.9	21,940.0
% of GDP	15.3%	13.2%	13.1%	13.2%	14.0%	15.0%
Taxes on income, profits	11,252.6	8,935.0	8,899.9	9,008.8	9,677.4	10,816.3
Taxes on payroll and workforce	1.4	0	0	0	0	0
Taxes on goods and services	4,293.5	5,015.3	5,888.1	6,796.0	7,622.3	8,613.9
Taxes on international trade and transactions	906.0	949.4	1,025.6	1,391.9	2,115.2	2,509.9
Donor Grants	1,472.1	2,024.9	2,074.9	2,124.9	2,175.2	2,224.9
% of GDP	1.4%	1.8%	1.7%	1.6%	1.6%	1.5%
Other revenue	612.5	2,657.4	2,610.2	2,905.2	3,533.6	4,205.5
% of GDP	0.6%	2.3%	2.2%	2.2%	2.5%	2.9%

Source: Department of Treasury.

The Medium-Term Revenue Projections for (2023-2027) is based on the 13-Year Budget Repair Plan. The plan has a very ambitious revenue profile over the MTRS period, and the government remains committed to achieving projected targets and desired outcomes, such as achieving 17.9 per cent of Government revenue to GDP by 2027. The 13-year Budget Repair Plan's growth path is based on achieving 5.0 per cent real non-resource growth per year by 2027, an average inflation rate of 5.0 per cent per year, and average compliance gains of 2.5 per cent per year which will be supported by the IRC and PNGCS. The additional compliance gains will drive the steady lift in non-resource revenues as a share of non-resource GDP. Other highlights include:

- The implementation of the *Non-Tax Revenue Administration Act 2022* is expected to generate K550.0 million in 2023 and over K1.0 billion annually by 2025 and onwards;
- The revised dividend policy will enable Stated Owned Enterprises to declare dividends in a structured policy framework to support of government commitment in mobilising revenue;

- The ongoing reforms with the Department of Lands and Physical Planning to collect outstanding land rentals in excess of K100.0 million over the medium-term; and
 - Other sector specific reforms include the review of log export taxes to improve revenue collection in the forestry sector and further work with the National Fisheries Authority.
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3 STRENGTHENING PNG'S REVENUE POLICIES

3.1 Overview

Since the implementation of the first MTRS in 2018, there has been solid progress made in the implementation of specific revenue policies and legislative reforms through the annual budgetary process. The general policy aim for the reforms was to generate government revenue and improve tax compliance. Some of the policy reforms worked on includes:

- (i) incorporation of tax relief in two historic Household Assistance Packages, including the temporary removal of taxes on fuel (now re-introduced as fuel price have fallen) and temporary reductions in personal income taxes;
- (ii) establishing a small business tax regime;
- (iii) the tightening of thin capitalization rules;
- (iv) the publication of the annual tax expenditure statement;
- (v) the passage of the *Tax Administration Act in 2017* and the commencement of the re-drafting of the *PNG Income Tax Act 1959*;
- (vi) increased taxes on the banking and telecommunication sectors;
- (vii) increased taxes on round log exports in support of government policy to downstream processing;
- (viii) significant increases in excise taxes on social drinks; and
- (ix) Work on the simplifying the current Income Tax Act is continuing with a rewritten Income Tax bill expected to be passed, at least in initial stages by end of December 2023.

Some of the reforms that are useful but could not be implemented due to the changing economic circumstances over the last five years will be considered for implementation during this MTRS lifespan.

The MTRS (2023-2027) will continue to implement reforms aimed at broadening the tax base by reducing distortions, and addressing the policy issues that hindered the effectiveness and efficiency of tax compliance and services.

3.2 Specific Revenue Policy Reforms

During the MTRS (2023-2027) the following revenue policy reforms will be considered.

1. **TAX SYSTEM OVERVIEW REVIEWS.** There is a need to ensure that PNG's tax system remains fit for purpose in a rapidly changing world. The following strategic tax reviews are considered vital for enhancing and future-proofing PNG's taxation system:
 - Review of inter-governmental taxation arrangements [on-going with NEFC and Constitutional review processes];
 - Review of revenue collections in a rapidly changing world, including the impacts of climate change, digital transformation and taxing the digital economy;
 - Review of Special Economic Zones and how they can increase tax revenues as well as growth to meet PNG's development needs;
 - Review of governance arrangements of revenue agencies, including options of Governing Boards or returning to a single policy and administrative system;
 - Review the most appropriate location of the non-tax revenue function; and

- Review and Align Business Structures. Business structures have significant tax implications and need to be aligned. The Investment Promotion Authority needs to work with the Department of Treasury and IRC to ensure that business structures are properly aligned. For instance, many organisations are still using business names to run businesses without paying and filing tax returns.
2. **PERSONAL INCOME TAX (PIT).** The focus will be to apply a permanent PIT regime that minimises revenue losses while providing tax relief in a progressive and sustainable manner as follows.
- As part of the 2024 Budget, consider options for more permanently lifting the tax threshold above K12,500.0.
 - As part of any lifting of the tax threshold, review the tax rates in each band and consider the appropriateness and relevance of current salary and wage dependents' rebates.
 - Consider further reductions in income taxes in future budgets, while noting PNG already exempts most workers in the formal sector (no tax is paid even when workers are receiving well above the minimum wage), and less than one in twenty people even have a job in the formal sector.
 - Assess for potential implementation the recommendations from the Superannuation and Life Insurance Review.
 - Consider the costs of the very extensive tax concessions provided to the superannuation and life insurance industries, as well as the very high levels of compulsory payments relative to other developing countries.
 - Undertake a detailed review of the PIT distribution survey results to ascertain the number of salary and wage earners in the country.
3. **GOODS AND SERVICE TAX (GST).** The main aim is to move from income-based tax to consumption tax base.
- Consider reforming the GST rate in a phased manner with improved compliance directed at lifting funding for PNG's development.
 - Consider reforms to the GST to lower the rate on basic household products while increasing the rate on luxury products.
 - Consider exempting supplies for charities and aid organisations, rather than zero rating.
 - Review and update the current GST deferral scheme.
 - Undertake a detailed study to determine the merits of imposing a GST on digital supplies (e-commerce platforms).
 - Establish a GST refund risks management policy to detect, deter and prosecute GST refund fraud.
 - Review and consider expanding GST application to gambling activities.
 - Review and consider reducing filing frequencies for businesses with low turnover thresholds to relief them.
 - Review and consider imposing mandatory offsetting for GST refund claims below certain thresholds.
 - Review and consider introducing a legislative scheme for introducing the Goods and Services Monitoring system to mandate withholding.
 - Review and consider reforming the penalty regime for GST to be applied on shortfalls as a result of GST credit verification.

4. CORPORATE INCOME TAX (CIT)

- Review corporate tax incentives and consider repealing those that no longer serve a purpose and update those incentives to be retained by revisiting their scope to ensure policy is targeted.
- Simplify the depreciation schedule, including removing the accelerated depreciation provisions for the resource sector.
- Look into phasing out the Infrastructure Tax Credit (ITC) scheme, or as a second-best policy, limit the scope of the ITC to focus on infrastructure projects in impacted remote areas.
- Continue improving the annual publication of the Tax Expenditure statement, and expanding content.
- Implement outcomes under Pillar one and Pillar two that are beneficial to PNG to address Base Erosion and Profit Shifting, and review impact of the global minimum tax on PNG.
- Develop tax treaty policies guiding future negotiations.

5. MINING AND PETROLEUM TAXES

- Review the Additional Profits Tax (APT).
- Establish a clear compliance framework for APT, including an APT return form schedule as part of the corporate income tax return, including ensuring that capitalised interest is not included in capital costs deducted for APT.
- Eliminate the practice of granting/negotiating concessions/fiscal incentives on a case-by-case basis.
- Review the design of mobilizing mining revenues through production sharing arrangements and the use of variable royalties to allay volatile mineral prices.
- Assess the benefits of narrowing the scope of the Resources Contract Fiscal Stability Act (limit the scope of taxes for stabilisation to major tax heads).
- Segment future LNG and petroleum projects for tax purposes, ensuring adequate pricing along the gas/oil value chains.
- Move from wellhead to a field gate valuation for royalty purposes for petroleum projects.
- Moderate state participation expectations as recommended by the Tax Review committee and consider establishing a standardized mandatory carry mechanism to limit the need for case-by-case negotiation of terms.
- Set special tax rules for taxation of farm-out arrangements.
- Tighten the exploration cost ring-fencing rules.

6. EXCISE DUTY

- Consider introducing excise on beverages with added sugar.
- Remove the temporary tax exemption for fuel products to protect revenue base.
- Review the whole excise regime and introduce a new robust and sustainable regime.

7. IMPORT AND EXPORT TAXATION

- Review the log export duty with the aim of implementing the policy of no round log exports by 2025, and concurrently identify the potential to introduce a lower rate of export tax on timber products that have been down-stream processed in PNG.
- Commence the review of the Tariff Reduction Program.
- Review export duty on sea cucumber.

8. NON-TAXATION REGIME

- Continue the implementation of the *Non-Tax Revenue Administration Act 2022*.
- Review the Government agencies' fees and charges with minimum distortions to the users of such services.
- Revise the Dividend Policy to ascertain the dividend sharing split with State Owned Enterprises.
- Continue to enhance reporting and controls of non-tax revenues collected by the statutory authorities to optimize revenue to the CRF and efficient delivery of respective agency services.
- Improve the collection of land administration fees and rental collections through the eland (online) system by the Department of Lands and Physical Planning.

4 MEDIUM TERM LEGISLATIVE REFORMS

Taxation establishes a legal relationship between taxpayers and the Government whereby the tax policy and administration components of the tax system are set in laws, and the Government abides by those laws to mobilize resources to fund essential public services. The correct application and respect of the rule of law is crucial for the success of a tax system. In this regard, well-prepared laws are significant elements of the efficiency and effectiveness of the tax system.

In implementing the MTRS (2023-2027), careful examination of the laws governing the tax and non-tax system will be required, including both the substantive laws setting the taxes and non-taxes and the procedural ones establishing the revenue agencies' powers and taxpayers' rights. Attention also needs to be paid to meeting the intent of international treaties and other obligations. Improving and altering the legal framework will also have to accompany changes in policy and administrative frameworks. Hence, some of the legislative reforms identified are:

- i. **Promulgation of new *Income Tax Act (ITA)*.** The new ITA is nearing finalisation with required regulations and other activities being prepared for tabling in parliament. A phased implementation approach may be considered;
- ii. **Implementation of *Tax Administration Act 2017*.** This Act will improve the administration of IRC and complement the implementation of the new ITA;
- iii. **Consolidate Tax Incentive provisions in various tax laws into one tax law.** To improve administration and management of the tax incentives regime;
- iv. **Review of PNG Customs Legislations.** The review includes the *Customs Act 1951, Customs Tariff Act 1990, and Excise Act 1956; and*
- v. **Implementation of the *Non-Tax Revenue Act 2022*.** This Act will improve central revenue collection, by consolidating funds raised as non-tax revenues.

To undertake the necessary legislative reforms, the Department of Treasury, the Department of Finance, the Internal Revenue Commission, PNG Customs Service and other relevant agencies will need to be adequately resourced to support the realistic and timely implementation of reforms.

5.1 Overview

Strengthening and modernising the revenue administration agencies (IRC and PNGCS) is key to effective revenue collection. While the introduction of new revenue policy measures may raise revenue, much depends on administrative efficiency. Numerous reviews have highlighted institutional and capacity issues within the revenue administration agencies. They have also revealed that both agencies are not equipped to manage the high levels of non-compliance in the community. While there were several administrative improvements implemented in the MTRS (2018-2022), more work is needed to further enhance revenue administration and strengthen the administrative capacity of IRC and PNGCS so that these agencies are able to live up to the principles of effective tax administration (see Box 2).

Box 2. Principles of Effective Tax Administration

A proper legal framework for tax administration that provides an appropriate balance between the rights of taxpayers and the powers of the tax agency.

Efficient organisational and staffing arrangements, featuring strong headquarters; function-based organisational design; minimal management layers and appropriate spans of control; streamlined field operations; and organisational alignment to key taxpayer segments (e.g., a large taxpayer office); and sufficient staff assigned to each level of the organisation and each function.

A system of self-assessment directed at creating an environment of taxpayer voluntary compliance thereby minimizing intrusion of revenue officials in the affairs of voluntary taxpayers, while concentrating enforcement efforts on those representing a higher risk.

Streamlined collection systems and procedures aimed at securing timely revenues without imposing undue compliance costs and inconvenience on the business sector.

Service oriented approaches whereby the tax administration operates as a trusted advisor and educator, ensuring that taxpayers have the information and support they need to meet their obligations voluntarily.

Risk-based audit and other verification programs aimed at detecting taxpayers who present the greatest risks to the tax system, supported by effective dispute resolution.

Extensive use of IT to gather and process taxpayer information, undertake selective checking based on risk analysis, automatically exchange information between government agencies, and provide timely information to support management decision making and tax policy formulation.

Modern human resource management practices that provide incentives for high performance and non-corrupt behaviour among tax officers as well as develops staff skills and professionalism.

Effective models for ongoing institutional change, including enhancing strategic planning capabilities, building coalitions with external stakeholders, and developing an internal culture that is receptive to change.

An environment of integrity and good governance with transparency of taxpayer rights and required staff conduct, with mechanisms to assure integrity of systems, procedures, and staff practices, and to regularly inform the public of organisational goals, plans, efforts, and outcomes.

5.2 Internal Revenue Commission – Administrative Reforms

A comprehensive reform strategy for the IRC has been developed and will be articulated in the IRC Corporate Plan 2023-2027. The IRC reforms involve seven key pillars:

- A. Effective revenue collection;
- B. Data driven;
- C. Digital transformation;
- D. Fostering voluntary compliance;
- E. Building organisational agility;
- F. Promoting integrity and preventing corruption; and
- G. Tax law reform.

The MTRS (2023 – 2027) strategic outcomes will be delivered through the execution of IRC’s five-year work plan to ensure a robust, modern, and efficient tax administration, all subject to usual government processes.

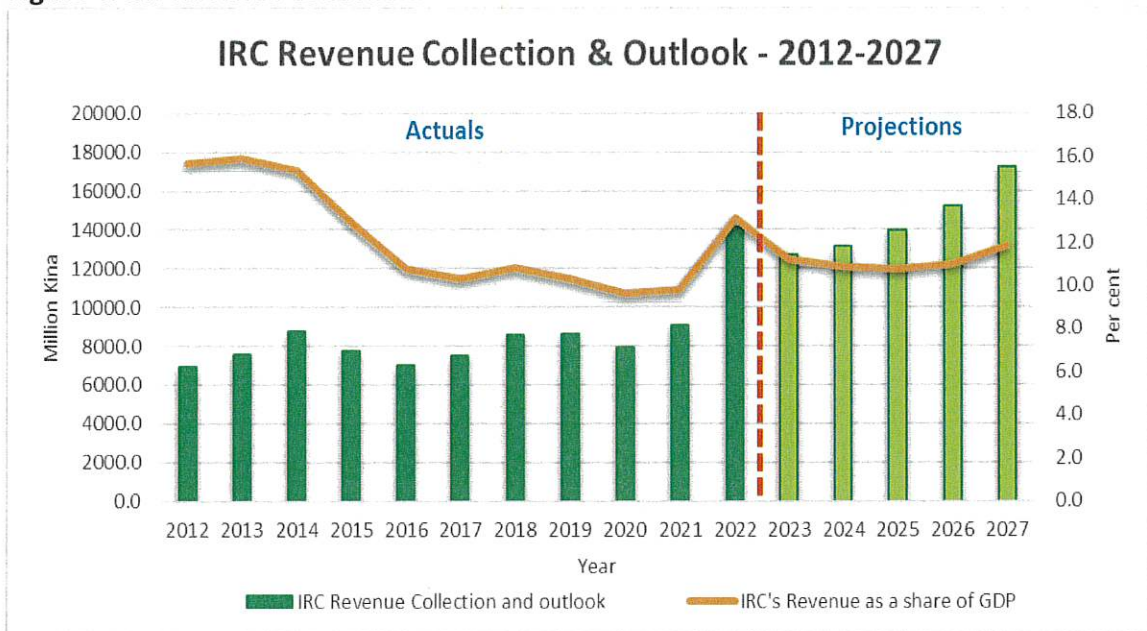
IRC collects nearly 80.0 per cent of total tax revenue. IRC’s revenue collection has generally declined since 2015, 2016 and 2017 (years prior to implementation of the first MTRS) as noted below in Figure 4. This declining trend is reflective of the fall in the commodity prices and IRC’s compliance issues which include low revenue collection efforts by the IRC and minimal focus on GST regime.

During the implementation of the MTRS (2018-2022), revenue collections in nominal improved but declined in 2020 due to the economic impact of COVID-19 and the war in Ukraine. Nominal revenue trends increased in 2021 and 2022 and are projected to continue to increase over the medium term. IRC has collected approximately K48,404.9 million (K48.4 billion) during the implementation of the MTRS (2018-2022).

Within these figures, there is an important distinction between resource tax collections and non-resource tax collections, particularly when assessed as a share of the relevant tax bases. After allowing for the impacts of the revenue boom for the resource sector flowing from the Ukraine-Russian war, non-resource tax collections as a share of the non-resource GDP are still below the levels in 2017. This is of particular concern as 2017 was in fact the low point of non-resource tax performance between 2012 and 2017 (shown by the height of the blue bars in Figure 1). Indeed, by 2027, non-tax revenues are only expected to reach their same share of non-resource GDP as in 2017. There has been a decade of lost opportunities.

The MTRS (2023-2027) aims to reverse this downward trend in tax collection performance. IRC’s collections over the term of the MTRS to contribute towards a revenue (excluding grants) target of 17.9 per cent by 2027 (figure 4). IRC is projected to contribute about 11.8 per cent of revenue as a share of GDP to the 13-Year Budget Repair Plan target (17.9 per cent) by 2027.

Figure 4: IRC Revenue Collection.



Source: Department of Treasury

5.3 Strengthening Key Delivery Functions of the Internal Revenue Commission

A. Effective Revenue Collection

1. **Effective Collection of Stamp Duties.** The current stamp duty processes are ineffective and inefficient, which affects improved compliance, operational efficiency, service delivery and stamp duty governance. The stamp duties project is to improve certain processes enacted under the Stamp Duties Act that will allow for efficient revenue collections. A risked based assessment of Stamp Duty is also contemplated. It is also critical to review the stamp duty legislation and provide improvements that will streamline stamp duties processes and maintain sustainable stamp duty collections over time.
2. **Effective Collection of Import Goods and Service Tax (GST).** Currently, there is no GST Import Monitoring and oversight. This project was triggered by the *Tax Administration Diagnostic Assessment Tool (TADAT)* following recommendations that the GST should be the main revenue earner for the Government. Work on GST Import Monitoring will be carried out over the medium term. This will be done in close collaboration with Customs.
3. **Effective Collection of Departure Tax.** The Departure Tax project was initiated in 2021 as an approach to improve and enhance collection at source. It was one of the effective revenue collections in 2021 annual work plan for IRC. However, work was delayed and but will be re-commenced.
4. **Effective Collection of Salary and Wages Tax (SWT)/SWT Improvement.** The current SWT system is too cumbersome and process-oriented. The objective of the project is to simplify the lodgment and payment requirements. This enables the use of the banking system to process SWT payments instantaneously. In addition, filing frequencies will be reduced. The process will give a clear SWT base

and stabilise revenue, while at the same time ease compliance and enforcement, while giving visibility to employment patterns and trends.

5. **Corporate Income Tax (CIT) Improvement.** This project aims to improve the efficiency of CIT collection, simplify the annual tax return form, and improve the level of compliance and performance of CIT audits in a timely manner will be encouraged.
6. **Debt Management Improvement.** This project aims at effectively managing the stock and flow of debt levels and ensure there is timely collection of debts. Raising IRC's profile amongst the taxpaying community will foster compliance, resulting in on-time payment of taxes. This project is to address the continuous increase in debt as a result of an ineffective collection mechanism in prior years.
7. **Online Portal - Tax Clearance Certificate (TCC) Automation.** On-Time Lodgment and Payment has been a challenge for years, coupled with missing taxpayer documents and other related issues which has resulted in unprocessed payments and reconciliation of taxpayer accounts which have become a significant challenge. This project will address the challenges around late lodgment and payment while also implementing a digital trail of all correspondences between IRC and the taxpayer. This also alleviates the chances of fraud and corruption in IRC.
8. **Online Portal - Certificate of Compliance (CoC) Automation.** Currently, the CoC is processed bi-annually and can be easily forged. The solution is to automate the process using an online portal so that there is limited discussion with the IRC officers. This will also improve processing turnaround times. All this can be done online without the need for the taxpayers to visit the IRC office.
9. **GST Refunds Improvement.** The GST Refund claims is a slow process, so IRC will revisit the Refund process and necessary amendments will be made to streamline and fast-track claims going forward.
10. **GST Section 65A.** This involves continuing the roll out of the GST section 65A, whereby the GST component of payment for services provided to the Government will be withheld and remitted directly to IRC through the Government's Integrated Financial Management System (IFMS) and the various Enterprise Resource Planning systems.
11. **GST Monitoring Systems (GMS).** The Government will install GMS in all counters of wholesale and retail shops which will capture GST collections at the point of sale and remit GST revenue directly to IRC. This system will greatly enhance the ability of IRC to monitor sales transactions on retail outlets and accurately confirm the monthly GST collections against the actual transfers using the GST data. The GST revenue from any sale debits the taxpayer account and credits the IRC's account instantly in real-time.

The GMS is expected to be procured, installed, and trialed in 2023, beginning with the retail sector which currently contributes 50.0 per cent of the total inland GST collection. Full implementation is expected in 2024.

12. **Effective Collection of Prescribed Royalty Withholding Tax (PRWT).** Currently, the PRWT is not a final tax. Consideration will be given to making the PRWT a final tax. This is to simplify administration and improve compliance over time.

B. Data Driven

1. **Data Management Strategy.** Best practice quality data management and good governance must be the minimum standard within the business units of the organization. The project aims to effectively improve business data processing by implementing the best practice of good governance and quality data management, enabling effective analytics for decision making.
2. **Business Structures Improvement.** The lack of an improved service standard that allows taxpayers to register business names and companies through a single window, coupled with incorrect registration data, restricts the tax administration's ability to provide improved compliance efforts. This project is aimed at aligning business processes with relevant government agencies that participate in the registration of entities, with the goals of harmonizing industry codes and aligning compliance efforts and data cleansing exercises through law, policy, and business process improvements.
3. **Industry Benchmarking and Profiling.** Currently there is no robust taxpayer industry classification to enable a comparison of taxpayers' performance with peers in the same industry. IRC will implement a standardized taxpayer industry classification and coding system which will not only strengthen compliance but enhance the efficiency of enforcement efforts by facilitating risk analysis and the improved risk-based targeting of taxpayer audits.
4. **Tax File Management (TFM).** This reform will ensure all tax files, correspondences and documents are managed and stored automatically using cloud-based storage. This is expected to improve Taxpayer Registration.
5. **Taxpayer Mapping.** This involves physically identifying the PNG tax base, such as the physical location, the directors, branches, related entities, and owners, etc., of taxpaying units.

C. Digital Transformation

1. **Digital Transformation Strategy (DTS) and Procurement of ICT/Digital Tools.** The DTS is aimed at digitalizing all aspects of IRC's administration. Modern organisations continue to improve internal technological advancements to provide operational efficiency and effective services to its employees and clients. For the tax administration, this means providing tools that allow staff to better perform their duties, as in the absence of modernized tools, employees of the tax administration will be unable to effectively, and efficiently perform their core duties.

The IRC is embarking on a digital transformation journey that will encompass several aspects, including the need for improved operational efficiency. This aims to improve tax administration and back-office functions through efficient operations and communication amongst divisions. The IRC needs to transition into a modern tax administration with efficient automated services for taxpayers and digital tools that can accelerate the transformation and boost performance. It is envisaged that the ICT architecture supports the core business in an ecosystem that utilizes digital tools for specific processes. This should streamline and improve business processes and introduce "minimum human intervention" into manual activities.

2. **Human Resource Information Systems (HRIS).** The lack of a comprehensive human resource system has impeded the progress of the organization's human resources. The Human Resources division is not able to fully capture human resource and capital information in an electronic repository. This has created issues surrounding business processes that should generate information to maintain and monitor a workforce whose performance is aligned to good governance and improved revenue collection efforts.

Digitizing these processes through implementing an HRIS and its respective core solutions for the IRC will address issues and mitigate risks relating to human capital management. Introducing an agile concept with the support of a comprehensive HRIS will provide a software solution to enhance HR business processes technologically, to deliver human capital that is proactive, robust, and capable of addressing emerging challenges within the tax administration and geared towards increased revenue collection efforts.

3. **Online Payment Portal.** On-time lodgment and payment has been a challenge for years, coupled with missing taxpayer documents and other related issues, has resulted in unprocessed payments and unreconciled taxpayer accounts. This project will address the challenges around late lodgment and payment as well as implementing a digital trail of all correspondences between IRC and the taxpayer. This will also alleviate the chance of fraud and corruption in IRC.
4. **Integrated Tax Accounting System (ITAS) - Multi – year.** The current Standard Integrated Government Tax Administration System (SIGTAS) is not performing all the functions required by IRC. System automation/integration is a huge challenge, resulting in late submission of revenue reports and payment automation for IFMS. This project aims at improving tax administration functionalities, such as payment automation, as well as enabling integration with other third-party database systems, to improve the efficiency of service to taxpayers and the public.
5. **Procurement of Data Analytics Tools.** Consistent with the implementation of data management strategy, various digital tools, including that for analytics and warehousing.

D. Foster Voluntary Compliance

1. **Taxpayer Services Strategy (TPS).** The Commissioner General initiated a Taxpayer Services (TPS) Strategy Project Team to review existing services and recommend changes to improve the level of services IRC provides to taxpayers.
2. **Monitoring of Tax Incentives.** Currently there is no tax incentive monitoring tool. The Tax incentive monitoring tool will be established to help IRC have oversight on the implementation of the tax incentives.
3. **Case Selection and Audit Improvement.** IRC will continue to improve case selection of taxpayers based on surveillance data for audit purposes. Develop Compliance Improvement and Audit Strategies to improve the use of the various audit interventions through risk-based audits.
4. **Case Management.** This project is aimed at improving the management of cases through the use of dashboard automated reports rather than traditional manual reporting, which often takes time to compile. This will help IRC improve the manual management of cases which occur outside of the system.

E. Build Organisational Agility

1. **Organisation Review and Redesign.** Organisation issues include the misalignment of functions and staffing resources and capacity constraints which hinder effective revenue collection. This transformational project is aimed at delivering a tangible alignment of People, Processes and Systems Flows through redesigning the organisational structure into a robust and efficient workforce that delivers the core mandate, is future fit, and is agile in addressing emerging business challenges.
2. **Construction of a new IRC HQ:** In line with the implementation of the new organisational redesign, a new IRC HQ will be considered in the Government Precinct in Waigani.
3. **Internal Audit (IA) Diagnostic Tool.** The Internal Audits (IA) function does not have a standard audit checklist or template/tools. This affects the performance of audit work and reporting. The Project team will develop the diagnostic tools for each of the divisions in IRC comprising the Core Mandate, Key Performance Indicators, and Risk register. Once these diagnostic tools are settled, IA will use them to undertake audits (diagnosis) against the checklist. This will make the audits more focused, and hence the quality of the audit reports will improve.

F. Promote Integrity and Preventing Corruption

1. **Procurement of Accounting Software.** This project aims to replace the current manual reporting of revenue accounting and corporate finance with an accounting software system that will improve the timely reconciliation of tax collections and reporting to Government.

2. **Staff Home Ownership Scheme.** This project's objective is to improve staff conditions of employment and is a staff retention strategy.

G. Tax Law Reforms

1. **Implementation of Tax Administration Act (TAA) 2017.** This involves developing Standard Operating Procedures (SOP) and establishing a team to conduct awareness and training for the new TAA. The TAA is aimed at improving tax administration and compliance and it is essential that tax administration officers are trained in the new processes under the TAA. Currently the TAA SOPs are being drafted and training for officers to enforce the provisions is underway. The TAA is expected to come into effect in the fourth quarter of 2023.
2. **Implementation of the new Income Tax Act (ITA).** This involves developing Standard Operating Procedures (SOP) and establishing a team to conduct awareness and training for the new ITA. The ITA aims to simplify the tax law, improve voluntary compliance, and reduce the cost of compliance to the taxpayer.

6 CUSTOMS SERVICE MEDIUM TERM ADMINISTRATION REFORMS

6.1 Overview

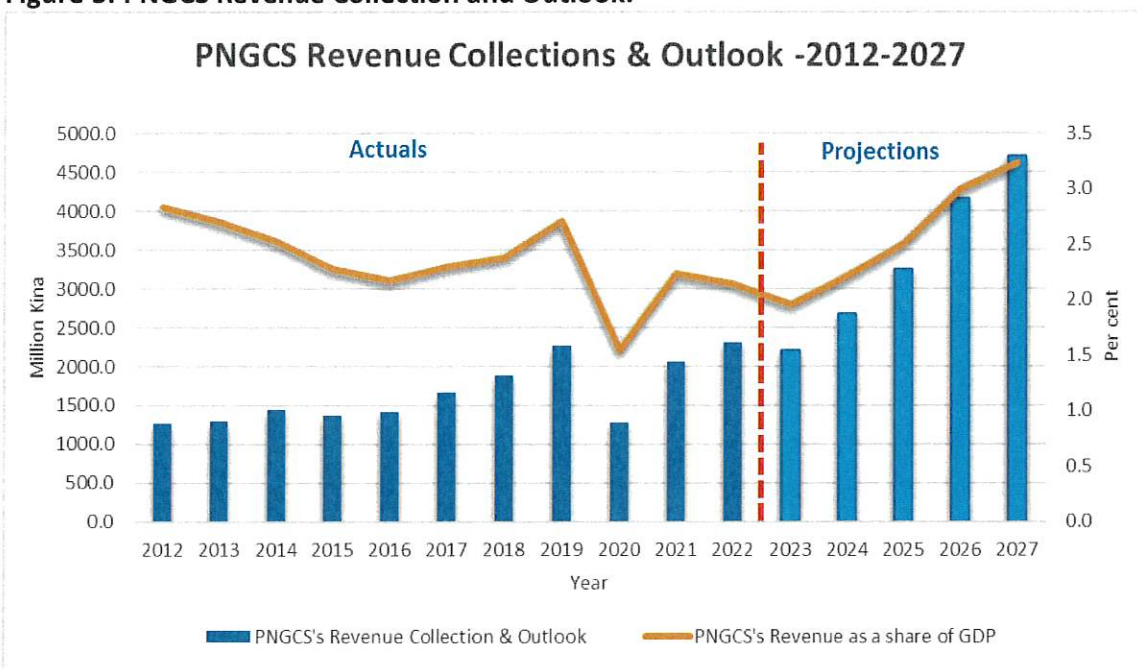
PNG Customs Service (PNGCS) has three key functions - border and community protection, trade facilitation, and revenue collection. The PNGCS's mission is to protect PNG's borders, communities, and industries to enhance facilitation of international trade and travel, and to protect and at the same time collect revenue.

Since 2012, the PNGCS has helped the Government mobilize K18,236.4 million (K18.2 billion) in revenue to support the national budget as demonstrated in Figure 5. During the implementation of the MTRS (2018-2022), PNGCS contributed about K9,801.4 million (K9.8 billion) to the Government revenue over these five years. Prior to implementation of the first MTRS (2012-2017), PNGCS contributed about K8,435.0 million (K8.4 billion) over the 5 years.

Generally, PNGCS revenue collections as a percentage of GDP has declined from the period 2012 to 2016 and then increased by 0.1 per cent in 2017 and 2021 and 0.3 per cent in 2019 due to the advent of COVID-19 in early 2020 which resulted in Custom's revenue as a share of GDP declined by 0.5 per cent. The declining trend is expected to continue if no policy reforms are undertaken by the Government. Therefore, to reverse this decline in revenue collections the implementation of the MTRS (2023-2027) is critical.

The implementation of the MTRS (2023-2027) aims to increase revenue over the medium term through increased compliance efforts. The PNGCS revenue collection as a share of total GDP is targeted to reach 3.2 per cent by 2027 to contribute to the 17.9 per cent revenue to GDP target of the 13-Year Fiscal Plan.

Figure 5: PNGCS Revenue Collection and Outlook.



Source: Department of Treasury

6.2 Challenges

There are ongoing challenges that need to be addressed to improve PNGCS revenue collection. Some administrative challenges are in the following areas: (i) tax evasion/smuggling; (ii) customs declaration procedures; (iii) intelligence gathering and analysis; (iv) risk management; (v) customs valuation; and (vi) post clearance audits. In terms of oversight or governance, PNGCS needs to progress its plans to fully transition to becoming an independent statutory authority and formalise its revised organisational structure and relevant accountabilities. This should be followed by targeting policies to support increased collections and effective corporate governance, especially in building human resources and capacity to address skills and knowledge gaps due to retirement, retrenchment and experienced officers leaving the workforce. Furthermore, the acquisition, use and maintenance of appropriate infrastructure and technology has also posed some significant challenges for PNGCS.

6.3 PNG Customs Service Reforms

In addressing the challenges identified above, the strengthening of customs administration will focus on the following core areas: (i) clearance processes, (ii) cross-border mechanisms; and (iii) supporting mechanisms including but not limited to human resource development.

The focus of PNGCS for compliance and administration are:

- 1. Reviewing PNGCS Laws including Consequential Reviews to Align and Harmonise with International Best Practices.** The legislative review includes the *Customs Act 1951*, *Customs Tariff Act 1990*, *Excise Act 1956*, and the Regulations as well as review and Facilitation of Exemptions and Deferrals. Other important work includes updating the PNG Customs Harmonise System (HS 2022 to HS 2027).
- 2. Strengthening Customs Operational Capability and Effectiveness.** Maximise use of no-intrusive inspection technologies such as: (i) Container Examination Facility; (ii) Maritime Border Operations Capacity and Infrastructure Development-Boat Shed & Queens Bond; (iii) Customs Detector Dog Capacity and Infrastructure Development; and (iv) Land Border Facilities Improvement; and Infringement Notice Scheme - for enhanced voluntary compliance.
- 3. Risks Management Strategy-Data Systems.** The Valuation Database is a risk assessment tool to alleviate sources of tax evasion, such as misclassification and undervaluation, risk-based intelligence led operations, and enhancing targeting and profiling.
- 4. Compliance Management Strategy.** An established framework to guide PNGCS compliance efforts over time. Enhance business process reviews and overall organisational governance frameworks internally as well as externally with industry stakeholders.
- 5. Customs Enforcement (Investigation & Prosecution).** More emphasis on efficiency in PNGCS prosecution efforts and explore options on developing an investigations case management system as well as investigations and prosecutions training with proper technical aid and support.

6. **Strengthening Excise Administration.** Review excise and the related legislation to strengthen excise control, monitoring, enforcement and compliance and better resourcing and development of excise functional areas' capacity and capability.
7. **Strengthening Internal Information Communication and Technology (ICT) Platforms and Knowledge.** Excellent maintenance of ICT platforms and related capacity improvements; and maximise the use of Automated Systems for Customs Data (ASYCUDA) World across PNG. Also, development and use of other suitable ICT platforms to enhance Customs operational responsiveness and capability, while properly maintaining existing ICT infrastructure.
8. **Increasing Manpower.** The recruitment of officers to conduct operations, intelligence, enforcement, prosecutions, and post clearance audits is critical. The target is to increase the manpower capacity from the current 40.0 per cent to 60.0 per cent of the 1,134 staff requirement in the medium term. This will strengthen land and maritime border presence/capability/operations. Also, increasing the number of base-level positions at the regional operations for frontline officers will be implemented.
9. **Review and Maintain Memorandum of Understandings (MoU) with Key Stakeholders.** Increase inter-agency cooperation and communication and improve the implementation of existing treaties and memorandum of understandings with external partners is critical.
10. **Capacity Building Programs for PNGCS Staff.** Embark on regular short-term training opportunities for all PNGCS officers (including those by World Customs Organisation), and sponsorship of long-term studies for staff development. In addition, provide leadership development for high potential and higher performing staff. Enhance Customs Training Institute (CTI) infrastructure and training programs to deliver the required training.
11. **Reward Programs for PNGCS Staff.** Implement performance incentive programs to award good performance and promote staff with revised pay structures. The reward program will incentivise, reward, and motivate PNGCS officers to work hard to deliver over and above revenue target expectation by the Government.
12. **Addressing Dual Invoicing by Importers.** Develop Strategies to Prevent Discrepancies between Bank Payments and Customs Declarations.

7 STRENGTHENING THE NON-TAXATION REGIME

7.1 Overview

The Government is committed to strengthening non-tax revenue collections by ensuring an effective and efficient application of good corporate governance practices and greater transparency and accountability in all statutory bodies and State-owned entities (SOEs) in the medium term.

The *Public Finance (Management) Regularisation Act (Amended) 2016* was aimed at strengthening accountability, transparency, and the use of public funds. The amendment increased public finance management powers to the Department of Treasury (DoT) and Department of Finance (DoF) to ensure effective governance and administration of the PFMA.

The key areas for increasing revenue collection and accountability include: (i) enhancing trust accounts of public bodies; strengthening the collection and review of non-tax fees; and improving investment returns from SOEs.

Two events have impacted the smooth flow of non-tax revenue collections since 2018. These include the nullification of the *Public Finance (Management) Regularisation Act (Amended) 2016* in 2020, followed by the economic impact of COVID-19 on individuals and businesses.

7.2 Department of Finance Reforms

To protect government revenue and promote good governance, transparency, and accountability in the non-tax revenue regime in the next five years, the following key reforms will be implemented:

7.2.1 Reviewing of Government Agencies Fees and Charges

The *Public Finance (Management) Act (PFMA)* amended in 2016 and Section 71 (A & B) added, gives powers to the Minister for Finance to review fees and charges for national departments, line agencies, public and State Bodies.

Under Section 71 (B) of the *Public Finance (Management) Act (PFMA) 2016* (as amended), the Minister for Finance in July 2019 is directed to review fees and charges for national departments and statutory bodies through a publication of *Gazettal Notice No: 599*.

Seven agencies have completed their review of fees and charges and are currently implementing their new revised fees and charges. Other agencies are currently undergoing the review of their fees and charges.

7.2.2 Non-Tax Revenue Administration Act, 2022

The introduction of the Public Money Regularisation (PMMR) Act (2017) resulted in transfers of K600.0 million and K404.5 million to the CRF in 2018 and 2019 respectively from statutory bodies. However, after the nullification of the PMMR Act, the transfers have dropped drastically to an average of K65.6 million between 2019 and 2022.

Through the PMMR Act, the Government committed to bring all collections from fees and charges to CRF and to allow for ratio sharing arrangement to happen for the total collection of each agency. However, after the Supreme Court declared the PMMR Act as unconstitutional and nullified the Act, the transfer of revenue from agencies fell significantly.

In response to the nullification of the PMMR Act, a new bill called the Non-Tax Revenue Administration (NTRA) Act was drafted with inputs from relevant agencies and stakeholders. This Act was certified by the Speaker of Parliament for implementation on 17th April 2023 after Parliament enacted it in November 2022. The NTRA is expected to significantly improve non-tax revenue collection in the medium-term.

7.2.3 Integrated Financial Management Systems (IFMS)

The IFMS roll-out is progressing well in accordance with the Strategy and Roll out Plan. Despite a few challenges and issues in terms of revenue receipting and automated bank reconciliation of Revenue Accounts, IFMS will be successfully implemented and rolled out to all agencies and departments in the national and sub national levels in 2023 and onwards. The rolling out of IFMS to National and Sub-National levels will improve the business system processes, including automated bank reconciliations for Revenue bank accounts.

8 GOVERNANCE - ENSURING OUR SUCCESS

8.1 Implementing the Medium Term Revenue Strategy (MTRS) 2023-2027

The Revenue Reform Program (RRP) for the MTRS (2023-2027) will continue to be carefully governed, guided, monitored, and coordinated in the next five years to ensure each project delivers its outcomes on schedule. Each project within the program will be monitored by a central program steering committee regardless of whether the projects relate to policy, administration, or legislation.

All aspects of change will be actively managed, from inception to development and implementation. It is critical that strong program management is provided as well as a comprehensive change capability.

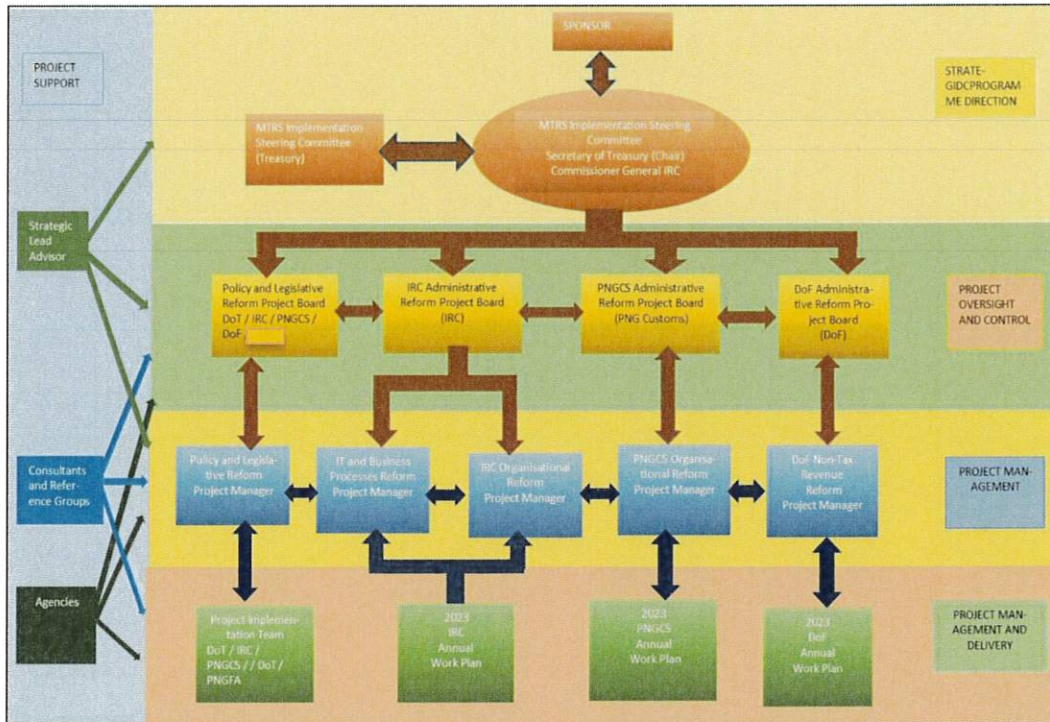
8.2 Setting up a Program Governance Structure

The initial program management structure in Figure 6 below will consist of the following:

- A program sponsor and a steering committee to ensure strategic program direction; and
- Five reform project boards to provide project oversight and control with project managers and implementation teams.

As the program will involve substantial re-engineering of existing arrangements, often across multiple agencies, provision of expert user reference groups will be required. Donors, consultants, contractors, and external partners will be engaged to provide resources, advice, and services not available from within the Government.

Figure 6: Program Governance and Management Structure.



8.3 Roles and Responsibilities in the Program Governance and Management Structure

Overlaying program management arrangements across the general management structure of the agencies will cause conflict within the program regarding accountability and reporting. Therefore, clear protocols will be established regarding the program governance structure (accountabilities and reporting arrangements). Reform activities will be closely monitored and coordinated at each level within the Program Governance and Management Structure.

The Program Sponsor will be the Minister for Treasury, Hon Ian Ling-Stuckey, CMG, MP. Tax policy remains with the Treasury as set out in all key taxation legislation sitting under the Treasury Portfolio.

9 GOVERNMENT COMMITMENT TO IMPLEMENT THE MTRS

9.1 Financing the Tax System Reforms

The Government is fully committed to this MTRS (2023-2027) and recognizes that the reforms as envisaged in this framework will incur some costs. All costs must be justified by a clear analysis, including the impacts on tax-payers and the government's broader growth and development agenda. Based on this analysis, financial support through the annual budgets can be provided to fund key projects that will generate additional revenue over time. However, history demonstrates that simply lifting resources is not enough, and indeed, there appears to be a growing gap in taxpayer compliance in PNG despite higher resource provision. Policy changes that better align tax policies with the market and taxpayer needs, combined with simplification of processes to lower compliance costs, are critical. There is also a need to balance the stringency of tax procedures with growth, for ultimately, it is growth that will provide most increases in tax revenues.

Any additional justified costs of the revenue reform program will initially be funded by looking at internal agency sources to identify lower value activities and reallocate funding. For any additional funding requirements, costs are expected to be shared between the Government and development partners. Relevant departments and agencies were involved in the development of this plan and, as part of the Government's Medium-Term Fiscal Strategy, have committed to a 5-year investment plan to support the MTRS. Following the cost-benefit analysis and internal reallocation review, priority areas of funding will be on activities to crack down on the black economy, as well as to strengthen the collection of non-tax revenue which has been an area of under-performance in recent years. Looking forward, there will be a technical working group established to review the implementation of tax incentives in project agreements, loans, and various tax laws. This working group will also work with BPNG to examine foreign exchange requirements for project partners.

The Government will also require support from PNG's development partners. In this respect the Government is also committed to work closely with the IMF, Asian Development Bank, Australian Government, the European Union, and the World Bank for provision of additional funding, technical assistance, and training to support the reform program. A full investment plan including development partner support will be finalised over the period.

A major benefit of the MTRS (2023-2027) is that all partner support will be aligned and coordinated under the Government-led MTRS. This will be a new approach to guide donor contributions and support under the Marape-Rosso Government's leadership.

Table 2: MTRS 2023–2027 Roadmap.

		2023	2024	2025	2026	2027
POLICY REFORMS						
TAX SYSTEM						
	Review of inter-governmental taxation arrangements [on-going with NEFC and Constitutional review processes]	Review	Report	Implement		
	Review of revenue collections in a rapidly changing world, including the impacts of climate change and digital transformation.	Develop TOR	Review			
	Review of Special Economic Zones and how they can increase tax revenues as well as growth to meet PNG's development needs		Review			
	Review of governance arrangements of revenue agencies, including options of Governing Boards or returning to a single policy and administrative system	Review	Implement			
	Review the most appropriate location of the non-tax revenue function	Review	Implement			
PERSONAL INCOME TAX						
Rebalance the tax composition from income to consumption while balancing equity issues across the economy.	As part of the 2024 Budget, consider options for more permanently lifting the tax threshold above K12,500.		Implement			
	As part of any lifting of the tax threshold, consider the appropriateness of current salary and wage dependents' rebates.		Implement			
	Undertake a detailed review of the PIT distribution survey to ascertain the number of salary and wage earners in the country.		Implement			
	Consider further reductions in income taxes in future budgets, while noting PNG tax free threshold already exceeds the minimum and average formal sector wages, while less than one in twenty people even have a job in the formal sector.				Implement	
	Consider implementing the recommendations from the Superannuation and Life insurance review – taxation regime				Implement	
	Review the costs of the very extensive tax concessions provided to the superannuation and life insurance industries, in comparison with the levels of levels of compulsory payments in other developing countries.				Implement	
GOODS & SERVICES TAX						
Broaden the GST tax base by making GST the largest source of non-resource revenue.	Consider reforming the GST rate in a phased manner with improved compliance directed at lifting funding for PNG's development.		Commence		Implement	
	Consider reforms to the GST to lower the rate on basic household products while increasing the rate on luxury products.		Commence			
	Consider exempting charities and aid organisations rather than zero-rating.		Implement			
	Review and update the current GST deferral scheme.		Implement			
	Consider expanding GST application to Gambling activities, while noting the application of existing special taxes in this area.				Implement	
	Conduct study to determine the merits of imposing a GST on digital supplies.		Commence			
CORPORATE AND INTERNATIONAL TAXATION						
Ensure a sustainable and fair corporate income tax regime	Rationalize corporate tax incentives by repealing those that are no longer relevant & revisit the scope of the incentives to maintain.		Implement			
	Simplify the depreciation schedule, including removing or reducing accelerated depreciation,		Implement			

		2023	2024	2025	2026	2027
	Removing the accelerated depreciation provisions for the resource sector.		Implement			
	Considering phasing out the Infrastructure Tax Credit scheme, or as a second-best policy, limit the scope of the ITC to focus on infrastructure projects in impacted remote areas.		Implement			
	Develop tax treaty policies guiding future negotiations.			Implement		
	Implement outcomes under Pillar one and two beneficial to PNG to address Base Erosion and Profit Shifting.		On going			
MINING AND PETROLEUM TAXATION						
Improve the MPT administration and compliance to ensure minimal revenue leakage.	Review and limit the scope of taxes for stabilization to major tax heads only		Review	Implement		
	Eliminate the practice of granting/negotiating concessions/fiscal incentives on a case-by-case basis.		Ongoing			
	Segment future LNG and petroleum projects for tax purposes, ensuring adequate pricing along the gas/oil value chain, and initially model impacts of the same			Implement		
	Move from wellhead to a field gate valuation for royalty purposes, and initially model impacts of the same			Implement		
	Review and develop policy for new Additional Profits Tax		Review	Implement		
	Establish a clear compliance framework for APT, including an APT return form schedule as part of the corporate income tax return.			Implement		
	Review and tighten as appropriate the exploration cost ring-fencing rules.		Implement			
TAX INCENTIVES						
Review existing incentives and exemptions; prepare annual tax expenditure statement; and Adjust arrangements based on economic value	Continue improving the annual publication of the Tax Expenditure Statement, and expand to include statements of intent for tax expenditures and develop a plan for evaluation	On going				
	Establish an inter-governmental economic investment committee to provide oversight to all investment including the application of tax exemptions.	Establish	Operation			
	Review the Infrastructure Tax Credit Scheme including whether to return the scope to project impacted areas only.			Implement		
EXCISE DUTIES						
	Review the on-going effectiveness of the concessional second-tier tobacco excise relative to the original single tier arrangement.		Implement			
	Review the current excise regime and introduce an updated robust regime.		Review	Implement		
	Remove the temporary tax exemption for fuel products to protect revenue base.	Implement				
	Consider the introduction of excise on beverages with added sugar.		Review	Implement		
NON-TAX REVENUE						
Broaden non-tax revenue base	Continue the implementation of the Non-Tax Revenue Administration Act 2022.	Ongoing				
	Continue the review of fees and charges for Statutory Authorities, Line Agencies and Departments.	On going				
	Continue to implement the revised Dividend Policy 2020.	On going				
	Improve the collection of land administration fees and rental collections through the eland (online) system by the Department of Lands and Physical Planning.	On going				

		2023	2024	2025	2026	2027
OTHER INDIRECT TAXES						
	Commence Review of the Tariff Reduction program, including the possible role of tariffs as part of a more progressive consumption tax regime.	Review				
	As part of the review, consider the appropriate balance of incentives to protect domestic manufacturers with the inflationary impacts on consumers, especially the urban poor.	Review				
	Review the progressive log export duty regime, in consultation with affected parties, with the aim of implementing the policy of no round log exports by 2025.	Review	Implement			
	Review the export duty for sea cucumbers.	Review	Implement			
LEGISLATIVE REFORMS						
Introduction of the Income Tax Act and Tax Administration Act 2017 and Conduct Review of other Legislations.	Introduce the new Income Tax Act, accompanying regulations, transition guidance and rulings structure, as appropriate		Complete	Implement		
	Implement the <i>Tax Administration Act 2017</i>			Implement		
	Review tax incentives in various domestic and international laws and consolidate them into one law, if possible.		Review	Implement		
	Review PNG Customs legislations.		Review Commence			
TAX ADMINISTRATION REFORMS – INTERNAL REVENUE COMMISSION						
EFFECTIVE REVENUE COLLECTION						
	Introduce the Goods and Service import Monitoring System.	Implement				
	Simplify lodgment and payment requirements for Salary and Wages tax.	Implement				
	Revisit the refund process and make amendments to fast track GST claims.	Implement				
	Tax Clearance Certificate Automation through online portal.	Implement				
	Improve collection of departure tax at source.	Implement				
	Improve the compliance and performance of CIT audits.	Implement				
	Debt management improvement by ensuring collection of debt when it is due.	Implement				
	Certificate of Compliance Automation through online portal.	Implement				
	Continue roll out of GST S65A	Ongoing				
	Rollout of the Goods and Service Monitoring system.	Trial	Implement			
	Consider making the Prescribed Royalty Withholding Tax a final tax.	Implement				
DATA DRIVEN						
	Improve business data processing with best practice good governance and quality data management.	Implement				
	Conduct industry benchmarking and profiling.	Implement				
	Manage tax files, correspondence, and documents using cloud base storage.	Implement				
	Conduct taxpayer mapping.	Implement				
DIGITAL TRANSFORMATION						
	Implement the Digital Transformation Strategy to digitalize all aspects of administration.	Implement				
	Modernize IRC tax administration with efficient automated services for taxpayers and digital tools that accelerate transformation and performance.	Implement				
	Digitizing the IRC's Human Resource Information system.	Implement				
	Introduce the online payment portal to improve lodgment and payment processes.	Implement				

		2023	2024	2025	2026	2027
	Further work to introduce the Integrated Tax Administration System to replace the current SIGTAS system.	Design & Install	Implement			
FOSTER VOLUNTARY COMPLIANCE						
	Develop and implement a taxpayer service strategy (TPS).	Develop & Implement				
	Introduce a tax incentive monitoring tool to monitor the use of the tax incentives.	Implement				
	Improve the case management reporting through automation.	Implement				
BUILD ORGANIZATIONAL AGILITY						
	Ensure alignment to people, processes and system flows to redesign IRC's organizational structure into a robust and efficient workforce.	Implement				
	Develop a diagnostic tool to improve the quality of internal audits.	Implement				
PROMOTE INTEGRITY AND PREVENTING CORRUPTION						
	Procure an Accounting system that will improve timely reconciliation of tax collections and government reporting.	Implement				
TAX ADMINISTRATION REFORMS – PNG CUSTOMS SERVICE						
REVIEW OF CUSTOMS LAWS INCLUDING CONSEQUENTIAL REVIEWS TO ALIGN AND HARMONIZE WITH INTERNATIONAL BEST PRACTICES						
	Review to Customs legislations	Implement				
	Outstanding HS 2022 Update and foreseen transition to HS 2027.	Implement				
	Review and Facilitation of Exemptions and Deferrals.	Implement				
STRENGTHEN PNGCS BUSINESS PROCEDURE AND PROCESSES						
	Maximize the use of no-intrusive inspection technologies – Container Examination Facility.	Implement				
	Relevant SOPs and SIPs.	Implement				
	Improve maritime border operations capacity and infrastructure development.	Implement				
	Improve Customs Detector Dog Capacity and infrastructure.	Implement				
	Improve Land Border Facilities.	Implement				
	Infringement Notice Scheme - for enhanced voluntary compliance.	Implement				
RISKS MANAGEMENT STRATEGY - DATA SYSTEMS						
	Valuation Database - risk assessment tool to alleviate sources of tax evasion - misclassification and undervaluation	Implement				
	Risk-based intelligence led operations	Implement				
	Enhance Targeting and Profiling	Implement				
COMPLIANCE MANAGEMENT STRATEGY						
	An established framework to guide Customs compliance efforts.	Develop				
CUSTOMS ENFORCEMENT (INVESTIGATION & PROSECUTION)						
	More emphasis on efficiency in Customs prosecution efforts.	Design & Develop				
STRENGTHENING EXCISE ADMINISTRATION						
	Excise and related legislative review					
	Strengthening Excise Control, Monitoring, Enforcement and Compliance functional areas, in part through better resourcing and capacity development	Design & Develop				
INCREASING MANPOWER CAPACITY						
	Recruitment of officers for operations, intelligence, enforcement, and prosecution. Strengthen land & maritime border presence/capability/operations.	Ongoing				
CAPACITY DEVELOPMENT PROGRAMS FOR CUSTOMS STAFF						
	Embark on regular short-term training opportunities for all Customs officers and sponsorship of long-term studies for staff development. Leadership development for high potential and higher performing staff.	Develop & Implement				
STRENGTHENING INTERNAL ICT PLATFORMS AND KNOWLEDGE						
	Maintenance of ICT platforms and related capacity improvements	Implement				

		2023	2024	2025	2026	2027
	Maximize use of ASYCUDA World	Implement				
REVIEW AND MAINTAIN MOUS' WITH KEY STAKEHOLDERS						
	Increase inter-agency Cooperation and Communication.	Implement				
	Improve implementation of existing Treaties/MoU's and explore new ones for other critical areas with external partners.	Implement				
REWARDING PROGRAMS FOR CUSTOMS STAFF						
	Reward programs to recognize staff - promotion, staff housing, medical cover, restructure and pay structure review.	Recruit & Train				
NON TAX REVENUE REGIME						
Enhance non-tax revenue collection.	Reviewing fees and charges.		Ongoing			
	Enhance reporting and controls over revenues collected by government authorities to optimize revenue to the CRF and efficient delivery of respective agency services.	On going				
	Improve the collection of land rentals through the eland online system.	On going				

APPENDIX

How the MTRS 2023-2027 helps Vision 2050.

